

Message Text

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ACTION EA-10

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TO SECSTATE WASHDC 8301

INFO AMEMBASSY CANBERRA

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

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TAGS: EMIN EFIN ID

SUBJECT: THIRD GENERATION CONTRACT OF WORK FOR MINING
INDUSTRY TO INCREASE PRESSURE ON MINING COMPANIES?

1. SUMMARY. CURRENT INDICATIONS ARE THAT PROLONGED
INTERNAL GOI CONTROVERSY OVER PATTERN OF MINING CONTRACT
OF WORK IS TO BE RESOLVED IN SENSE UNFAVORABLE TO MINING
COMPANIES. REQUEST WASHINGTON THOUGHTS AND GUIDANCE ON
APPROPRIATENESS EXPRESSION OF USG INTEREST IN KEY ISSUES
OF THIS CONTROVERSY. END SUMMARY.

2. SENIOR OFFICIAL OF THE DEPARTMENT OF MINING (SIGIT)
HAS INFORMED ME THAT RESOLUTION OF CONTROVERSY THAT HAS
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BLOCKED RELEASE OF NEW "THIRD GENERATION" MODEL MINING

CONTRACT OF WORK MAY BE AT HAND. DEPARTMENT OF MINING HAS APPARENTLY BEEN FORCED TO SURRENDER ITS POSITION IN DEFENSE OF MINING COMPANIES ON THREE KEY ISSUES IN WHICH IT CONFRONTED BANK INDONESIA (FULL REPATRIATION TO INDONESIA OF MINING EXPORT EARNINGS), DEPARTMENT OF TRADE (TEN PERCENT EXPORT TAX LEVY ON MINING PRODUCTS), AND FINANCE DEPARTMENT (EXPOSURE OF MINING COMPANIES TO LEVIES BY LOCAL AUTHORITIES, FROM WHICH FIRST-AND SECOND-GENERATION CONTRACTS OF WORK PROTECTED THEM). FIRST TWO CONDITIONS ARE THE ONES MINING COMPANIES HAVE MOST STRONGLY RESISTED. IN MAKING KNOWN ITS CAPITULATION, DEPARTMENT OF MINING OFFICIAL CONVEYED CONVICTION THAT INSISTENCE THESE CONCESSIONS WOULD EVERLY RESTRICT, IF NOT COMPLETELY CURTAIL, FLOW OF FUTURE JAJOR MINING INVESTMENTS INTO INDONESIA. INFORMANT SAID THERE HAS AS YET BEEN NO GOI REACTION TO MINING DEPARTMENT CAPITULATION.

3. INFORMANT SAID THOSE WHO FAVORED SHARPLY-INCREASED DEAMDNS ON MINING COMPANIES WERE STRONGLY INFLUENCED IN THIS SENSE BY UNUSUALLY PROFITABLE RECENT EXPERIENCE OF STATE MINING ENTERPRISES AND FREEPORT INDONESIA. SOME PERSONS THUS CONVINCED THAT GOI HAS BEEN GIVING AWAY TOO MUCH AND ATHAT RESPONSIBILITY OF DEFENDING NATIONAL INTEREST DEMANDS THAT HIGHER PRICE BE EXACTED FROM FOREIGN MINING COMPANIES DOING BUSINESS HERE.

4. IF U.S. AS EXPORTER OF MINING INVESTMENT AND CONSUMER MINERAL PRODUCTS WISHES TO BRING ANY JUDGMENT TO BEAR ON THIS QUESTION WE MAY HAVE VERY LIMITED TIME IN WHICH TO DO IT. (SIGIT SAID THT "ABOUT HALF" OF THE OVER-TWENTY COMPANIES WHOSE CONTRACT OF WORK APPLICATIONS PENDING ARE AMERICAN. KENNECOTT, ICCO,UTAH, USS AMONG THOSE WHOSE INTEREST KNOWN TO US.) BEFORE DECIDING TO APPRAOCH GOI WE WISH TO CONSIDER MERITS OF ARGUMENTS OPPOSING GOI TACTICS AND BASIC ASSUMPTIONS.

5. IN MY VIEW NO ARGUMENT HAS MUCH CHANCE OF SUCCESS UNLESS IT RECOGNIZES JUSTIFICATION OF MAXIMIZING RETURNS TO INDONESIAN PEOPLE AND NATIONAL TREASURY FROM ALL LIMITED OFFICIAL USE

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FOREIGN INVESTMENT WITHIN ITS BORDERS; BUT IF WE CAN PROVIDE EXAMPLES WHICH CONVINCINGLY DEMONSTRATE THAT RESTRICTIVE POLICIES NOW CONTEMPLATED HERE HAVE EFLECTED DESIRED INVESTMENTS WHERE PRACTICED IN OTHER COUNTRIES, SUCH EVIDNCE MIGHT INFLUENCE FINAL DECISION. ON OTHER HAND, IFMEASURES LIKE THESE (COMPULSORY EARNINGS REPATRIATION, EXPORT TAX) HAVE BEEN APPLIED ELSEWHERE WITHOUT RETARDING MINING INVESTMENT WE SHOULD KNOW THAT

ALSO. WHAT INCOME TAX ON OTHER FORMULAS CAN BE PROPOSED TO SATISFY BASIC DESIRE OF INCREASING BENEFITS TO INDONESIA WITHOUT UNDULY DISCOURAGING THE GOOSE THAT LAYS THE GOLDEN EGG? (EXAMPLE: H.G. OPPENHEIMER OF ANGO-AMERICAN REPORTEDLY ADDRESSED ANNUAL DINNER OF INSTITUTION OF MINING AND METALLURGY IN LONDON EARLIER THIS MONTH CITING SOUTH AFRICAN CASE WHERE MINING CONTRACTS CONTAIN ALTERNATE TAX SCHEDULES TRIGGERED BY PRICE DEVELOPMENTS. FOR OBVIOUS REASONS OF PALATABILITY WE WOULD PREFER TO CITE EXAMPLES FROM ANOTHER COUNTRY BUT THIS IS GENERAL IDEA.)

6. CAN HISTORICAL DATA BE MARSHALLED TO DEMONSTRATE OFTEN-REPEATED CONTENTION THAT PROFITS OF THE GOOD YEARS ARE REQUIRED TO CARRY MINING COMPANIES THROUGH THE LEAN YEARS?
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